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Coping with food price volatility in ACP countries

In 2007, global markets experienced significant and rapid fluctuations of varied duration in the prices of some foodstuffs. As a result, many ACP countries suffered from rising import costs and a profound disruption of local food markets. This trend led to a geopolitical crisis and instability not witnessed in recent times. The crisis hit the poorest households hardest, exacerbating malnutrition and triggering widespread civil unrest.

The underlying causes were extreme climate conditions, increased use of farm land to supply the growing biofuels and animal feed industry, the explosion of trading on food futures markets, export restrictions, high degree of concentration in export markets (operators and countries) and low levels of cereal reserves.

A new period of instability occurred in 2010; however, echoing the action plan adopted by the G20 in Cannes to address price volatility, experts attending a recent Brussels Development Briefing[1] recommended a number of measures aiming to limit price swings or mitigate their effects. In the short term, it is crucial to create or restore small-scale emergency food reserves, to improve information systems on market data, and to set up safety nets for the most vulnerable consumers and producers. In the long term, the most important goal is to promote increases in productivity, particularly among smallholders. It is important for ACP countries to take these measures on board, since they are most at risk from food price volatility.

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In Ouagadougou, consumers hope that the price of a sack of rice will be going down soon.

POLICY POINTERS

- **Develop pilot, small scale security systems** for emergency food reserves.
- **Improve and implement effective information systems** that include local production and market data which are accessible to farmers' organizations.
- **Raise smallholder productivity** by increasing investment in agricultural research and development and strengthening services and infrastructure in rural areas.
- **Develop safety nets** to protect the most vulnerable populations, as well as consumers and producers.
- **Give the farmers' organizations a voice** in the G20 Action Plan on Food Price Volatility.

AGRICULTURAL FOODSTUFFS PRICES: WILD SWINGS OBSERVED

Food prices are often subject to fluctuations on world markets, but the price swing in 2007-2008 was unprecedented. All major cereals (rice, maize and wheat) were affected, as was soybean and, in some areas, dairy products. The FAO world food price index measured record increases – wheat rose by 100 per cent in a single year, for example – and ended the first half of 2008 at an all-time high.

Import costs for cereals soared in many ACP countries, and the unstable world prices partly contributed to increases on national markets. Poor families, who tend to spend a greater proportion of the household budget on food, were particularly hard hit. As a result of this unprecedented crisis, FAO estimated that the number of people suffering from malnutrition worldwide increased from 850 million to 1.23 billion during this period. A further period of instability occurred in 2010-11, reaching even higher price spikes, and the frequency of warnings about certain commodities has increased since 2007.

[1] *Food price volatility: Briefing organised by CTA in cooperation with the New Partnership for Development in Africa (NEPAD), the International Food Policy Research Institute (IFPRI), the European Commission (DG DEVCO), the ACP Secretariat, the European Economic and Social Committee (EESC), Concord and other partners. Brussels, November 2011. http://brusselsbriefings.net*

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Cape Town, South Africa. In August 2008, hundreds of thousands of South Africans raised their voices against the rising food, petrol and electricity prices.

"Investment in improved market infrastructure and institutions is one of the viable options for dealing with volatile prices, together with the proper handling of humanitarian emergency food reserves."

Dr. Tobias Takavarasha, NEPAD

This situation is the result of a combination of factors.

An increasing proportion of agricultural output is being diverted from use as food for humans to use in the booming animal feed and biofuels industries. Between 2007 and 2009, these sectors accounted for 20 per cent of sugar cane and 9 per cent of vegetable oils worldwide. In 2009, 37 per cent of the US corn crop was used for ethanol production, according to the Earth Policy Institute.

In addition, increasingly severe and frequent weather disasters – storms, floods, droughts – such as those that struck Australia in 2007 or Russia in 2010, have affected cereal harvests and global markets. Climate change was responsible for a worldwide drop of 16 per cent in corn production, according to the Hadley Centre for Climate Prediction and Research.

Furthermore, the financial sector made huge investments in agriculture and food price speculation soared. The volume of corn negotiated on the futures market now accounts for three times the world output.

Not only have the effects of price volatility been aggravated by the low levels of food reserves, but also by the measures adopted by certain countries (limiting or freezing cereal exports) to mitigate price shocks. Such uncoordinated policies may have led to a 30 per cent rise in global cereal prices. Rice is in 2007 a case in point: despite the existence of a "sound" market, prices shot up by 50 per cent in six months, mainly as a result of protectionist measures introduced by governments seeking to consolidate national food security.

SHORT- AND LONG-TERM STRATEGIES

Stabilizing food prices in the ACP countries

These events are all the more worrying as certain causal factors in food price volatility may have greater influence in the future, for example, population growth, increase in non-food crops, dwindling water resources, high oil prices, etc. It is therefore essential and urgent that ACP countries alert the international community to the impending threats, and develop strategies for both the short term (periods of crisis) and the long term (reducing the risks for both populations and production systems). These strategies should take into account the fact that the vulnerability of populations and national economies vary from one country to another, depending on local conditions: dietary habits, market organization and integration into the global economy, institutional capacity, access to food, the resilience of farmers' systems, aid policies targeting the most vulnerable populations, etc.

Setting up emergency food stocks at the regional level

The low level of food stocks intensified the effects of price volatility and the size of the upswing. As a result, the idea of creating a system of food stocks now appears to be one of the most promising responses to volatile food prices.

Furthermore, setting up a system of cereal stocks coordinated at the regional level, rather than replicating national stocks, is currently the most popular proposal (suggested by the New Partnership for Africa's Development, NEPAD) because of the greater flexibility offered by this approach.

In September 2011, a feasibility study was carried out for the creation of small-scale food

> **"A significant portion of the increases in price and volatility of essential food commodities can only be explained by the emergence of a speculative bubble."**
>
> *O. De Schutter*
> *UN Special Rapporteur on the Right to Food*

stocks within the Economic Community of West African States (ECOWAS), specifically designed to respond to food price crises. The study was a joint project involving the World Food Programme, governments as well as international and regional organizations, and proposed a pilot system (Prepare) that is based on strong regional cooperation, solidarity and governance. The core of the system comprises a small physical stock of 67 000 tonnes of cereals, and a set of "virtual" supply tools (funding, buying on local markets, etc.) with the aim of being able to supply areas suffering shortages with the equivalent of 90 days' worth of corn, millet, sorghum and rice. The estimated budget is 44 million dollars for setup costs and 17 million dollars for annual operating costs. The G20 summit in Cannes (France) in November 2011 adopted the project, which will now be put in place.

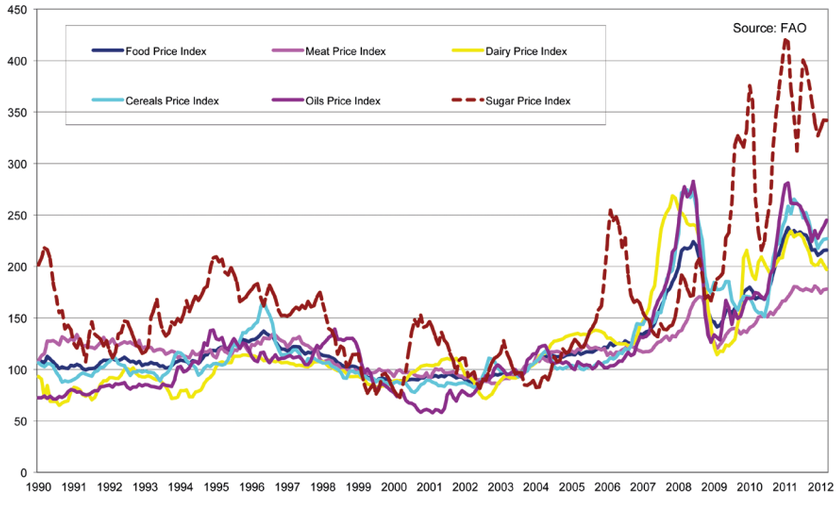
In a similar project, the Southern African Development Community (SADC) is planning to set up a regional food reserve facility, which will include the internal regulation to prevent restrictions on corn exports.

Facilitating the exchange of agricultural data

Improved information, greater transparency of market mechanisms, as well as monitoring market outlook, may have a mitigating effect on price spikes. Greater effort is required in order to obtain improvement at the global and regional levels. It is particularly urgent to increase access to best data on the production, stocks and trading of sensitive commodities such as cereals. This is one of the main goals of the Agricultural Market Information System (AMIS) that was approved by the G20 in Cannes, France, in 2011.

AMIS is designed to improve the transparency of the markets for four major agricultural products (wheat, rice, corn and soybean) by collecting and distributing information, analyses and forecasts at national and international levels. The objective is to report abnormal conditions so as to trigger early warnings, and to promote coordination in international policies. The AMIS output will be freely available. However, it will be necessary to check the extent to which this initiative, which is currently restricted to G20 countries and eight other guest countries (of whom two ACP countries: Nigeria and South Africa), will actually be useful to those countries that are most vulnerable to food price crises.

The programmes carried out by the NGO Afrique Verte International have shown the importance of such information flows. In Africa, areas suffering shortages (with soaring prices) may often be very close to areas enjoying surpluses. Interlinking the two regions by means of grain exchanges and simple financial mechanisms has regularly mitigated price increases and food shortages in the Niger—Mali—Burkina Faso triangle, where the lack of information exchange is of course not the only obstacle. The principle is based on buyers and sellers agreeing on direct and transparent transactions (fewer middlemen, transport at cost price, etc.), thereby creating a price drop of up to 25 per cent in the areas suffering shortages. This type of experience could also be of interest where international price fluctuations have an impact at the local level.



FAO Food Price Index 1990-2012

Protecting the most vulnerable populations

The majority of consumers in ACP countries do not have the resources to cope with sudden and sharp price increases for

> **"Food prices are expected to stay high and volatile for the foreseeable future and it's the poorest that are being hit hardest."**
> *UK Hunger Alliance, 2011*

basic food items. In order to limit the social impact of price volatility on their populations, governments need to develop safety nets that can be put in place when prices rise. On the demand side, this could involve providing aid to those in difficulty by using emergency food stocks (perhaps managed as part of a regional system; see above) or by using financial and fiscal tools such as subsidies for purchasing food, tax reductions on food products, or reductions on duty for imported food. On the supply side, smallholders could receive assistance in maintaining their capacity to acquire inputs, for example, so that they can also sustain their level of production.

Raising smallholder productivity

The destabilizing consequences of international price volatility can be softened by strengthening the capacity to keep local markets supplied, and at reasonable prices. With this in mind, political leaders should pay particular attention to smallholders, since they play a major role in supplying food for local populations in most ACP countries. Pillar 3 of the Comprehensive Africa Agriculture Development Programme (CAADP) of NEPAD addresses this challenge with three priority objectives: improving domestic production and marketing; facilitating regional trade in food staples; and building household productivity and assets.

To achieve these objectives, and in particular to raise productivity, governments should commit greater investment to agricultural research and development, as well as to strengthening services and infrastructure in rural areas (especially roads and schools). They should also pay special attention to improving access to water, healthcare, technical support, training and information. Such actions are essential in order to increase productivity, improve the capacity of production systems to cope with climate change, combat the lack of resources or reduce post-harvest losses. ■

AUTHOR
Patrick Piro

PEER-REVIEWER
David Hallam / FAO

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Technical Centre for Agricultural and Rural Cooperation (ACP-EU)
P.O. Box 380 - 6700 AJ Wageningen - The Netherlands
Tel: +31 (0) 317 467 100 - E-mail: cta@cta.int - www.cta.int